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AGENDA ITEM 9

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. SUBJECT:** Fiscal Year 2006-07 Budget Proposals (First Reading)
- II. PROGRAM:** Administration
- III. RECOMMENDATIONS:**
- (1) Approve the proposed Fiscal Year (FY) 2006-07 Administrative Budget of \$261,831,143 and 1,924 positions as a first reading.
 - (2) Approve the proposed FY 2006-07 CalPERS Headquarters Building Account (CHBA) budget of \$33,242,277 as a first reading.
 - (3) Approve the proposed FY 2006-07 Enterprise Projects budget of \$35,916,500 as a first reading.
 - (4) Approve the transmittal of this agenda item to the Joint Legislative Budget Committee, Fiscal Committees of the Legislature, State Controller, and Department of Finance, in accordance with the Budget Act of 2005, and to the Legislative Analyst's Office, State and Consumer Services Agency, and the Office of the Legislative Counsel.

IV. ANALYSIS

The proposed FY 2006-07 budget for all budgetary categories is \$965.5 million and 1,924 positions. Table 1 displays the categories that comprise the proposed FY 2006-07 budget.

Table 1

Category	Budget	Positions
Administrative Budget	\$261,831,143	1,924
CalPERS Headquarters Building Account	33,242,277	-
Enterprise Projects	35,916,500	-
Investment Expenses*	555,634,747	-
Directed Brokerage Expenses*	2,827,463	-
Third Party Reimbursements*	76,049,800	-
Totals	\$965,501,930	1,924

* Informational

Attachment 1 provides additional details of the budget requests. Staff recommends approval of the Administrative, Enterprise Projects, and CHBA budgets. An analysis of these three proposed budgets is presented in the sections below.

ADMINISTRATIVE BUDGET

The proposed FY 2006-07 Administrative Budget is \$261.8 million and 1,924 positions. The sections below describe staff's process in building the Administrative Budget.

Business Planning Process

CalPERS completed the tactical phase of its three-year planning process in November 2005. During this phase, senior managers worked together to identify and prioritize core workload and business initiatives for FY 2006-07 and beyond. Executive staff reviewed and determined which planning requests would move forward to the Formal Budget Request (FBR) process.

Formal Budget Requests

The FBRs submitted were evaluated for proper workload justification and the ability to fund needs through the redirection of existing resources. After completion of this analysis, recommendations were presented to senior executives and decisions were finalized to approve FBRs totaling \$13.8 million and 86 positions. These amounts are illustrated by branch in Table 2 below.

Table 2

Branch	Total Positions	Total Amount
Actuarial and Employer Services Branch	5	1,203,188
Administrative Services Branch	21	5,128,565
General Counsel	2	178,110
Governmental Affairs	4	256,856
Information Technology Services Branch	9	192,558
Investment Office	8	4,250,751
Member and Benefit Services Division	35	2,470,682
Public Affairs Office	2	82,928
Total Administrative Budget Requests	86	\$ 13,763,638

Additional information on the individual requests is included in Attachment 3.

Policy Adjustments

In addition to FBRs, staff recommends transferring two items out of the Administrative Budget for FY 2006-07. These two adjustments reduce the Administrative Budget by \$3.3 million.

- It is recommended that the budget and payments for the fixed income trading system contract be moved from the Administrative Budget to Investment Expenses. Expenditures for this contract are currently paid from both the Administrative Budget and Investment Expenses and it would be more appropriate to include all payments with Investment Expenses. This recommendation will reduce the Administrative Budget by \$3.0 million.
- It is recommended that the budget and payment for Lincoln Plaza insurance be moved from the Administrative Budget to the CHBA. This allows for a more accurate reporting of the expenses necessary in operating the headquarters facility and therefore is more appropriately budgeted in the CHBA. This recommendation will reduce the administrative budget by \$0.3 million.

Administrative Budget Summary

The approved FY 2005-06 mid-year budget is \$256.8 million. The adjustments for one-time expenditures and other technical budget modifications results in a modified beginning baseline for FY 2006-07 of \$251.4 million. Approving staff's recommendations would increase the Administrative Budget by \$10.5 million for a total of \$261.8 million for FY 2006-07, an increase of 1.9 percent from the FY 2005-06 mid-year budget.

ENTERPRISE PROJECT BUDGET

The Pension System Replacement Project (PSR) is the only project in the FY 2006-07 Enterprise Project Budget. The proposed FY 2006-07 budget for the PSR Project is \$35.9 million. This amount will fund the following:

- management support contract staff
- hardware, software and peripheral devices
- continuation of three positions
- backfill for impacted program areas
- project initiation, planning, design, and oversight
- migration of COMET database from Forte to Java, and
- technical expertise for the Forte migration effort.

CalPERS HEADQUARTERS BUILDING ACCOUNT BUDGET

Staff recommends approval of \$33.2 million for the FY 2006-07 CHBA budget. The FY 2006-07 budget represents a decrease of \$1.6 million under the FY 2005-06 budget. Major changes from the prior year's budget are primarily due to Lincoln Plaza East and West becoming fully functional and include:

- \$1.2 million increase Facilities Support related to telecommunications, expansion of building capital (furniture) and insurance
- \$6.9 million increase in Operating Expenses, routine owner improvements and capital improvements to the Emergency Operations Center.
- \$9.7 million decrease attributable to reductions in one-time projects related to preparation for moving into the new building

V. STRATEGIC PLAN:

CalPERS has an integrated planning and budget process. Prior to the budget process, senior management and executive staff develop a three-year business plan that aligns with CalPERS' strategic goals and objectives. The recommended FY 2006-07 budget supports these goals and objectives.

VI. RESULTS/COSTS:

Staff recommends approval of an Administrative Budget of \$261,831,143 and 1,924 positions. This budget represents a 1.9 percent increase from the current mid-year budget of \$256,832,290. Staff also recommends approval of \$33,242,277 for the CHBA and \$35,916,500 for the Enterprise Project Budget.

If accepted by the Finance Committee and approved by the Board at its March 15, 2006 meeting, this item will be presented to the Finance Committee again on April 14, 2006 for a second reading. If approved by the Board at its April 19, 2006 meeting, the FY 2006-07 budget will take effect July 1, 2006.

In accordance with control language included in the Budget Act of 2005, the information contained in this agenda item will be submitted to the Joint Legislative Budget Committee and the fiscal committees of the Legislature, State Controller, the Department of Finance. It will also be provided to the Legislative Analyst's Office, and Secretary of the State and Consumer Services Agency. The submission of this agenda item will take place upon acceptance by the Finance Committee and approval by the full Board. A draft transmittal letter is attached for your review.

VII. ATTACHMENTS

The following attachments represent the detail for the FY 2006-07 proposed budgets/projected expenditures:

- Attachment 1 Proposed Total Budget Display
- Attachment 2 Budget Summary by Object of Expenditure
- Attachment 3 Formal Budget Requests
- Attachment 4 Budget By Fund Source
- Attachment 5 Summary of Budgeted Positions
- Attachment 6 Budget by Basis Points
- Attachment 7 CalPERS Headquarters Building Account
- Attachment 8 Projected Investment Related Expenditures
- Attachment 9 Directed Brokerage Commissions and Expenditures
- Attachment 10 Third Party Administrators

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